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CANADIAN WESTERN BANK
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PROFILE:
Portage la Prairie, Manitoba

FEATURE:
Beyond Expectations: Saskatchewan Economic Profile and Forecast

OPINION:
Saskatchewan's growth will come with challenges

CANADAWEST FOUNDATION

Our Vision
A dynamic and prosperous West in a strong Canada.

Our Mission
A leading source of strategic insight, conducting and communicating non-partisan economic and public policy research of importance to the four western provinces and all Canadians.

CURRENTS Western Canada's Monthly Economic Bulletin

Vol. 2008, No. 4 a **Canada** Foundation publication

Monthly Highlights

Employment growth nationally in March was tempered compared to the past two months. The unemployment rate increased to 6.0% as more people have been drawn into the labour market. BC and Alberta were the only provinces in the country with strong employment growth.

Saskatchewan continues to lead the country on many fronts, including earnings growth, housing starts, building permits, retail and wholesale sales activity.

The most recent figures for Alberta show that growth in retail sales has moderated compared to the strong growth witnessed in early 2007. Wholesale activity in Alberta has also slowed. However, growth in Alberta remains above the national rate.

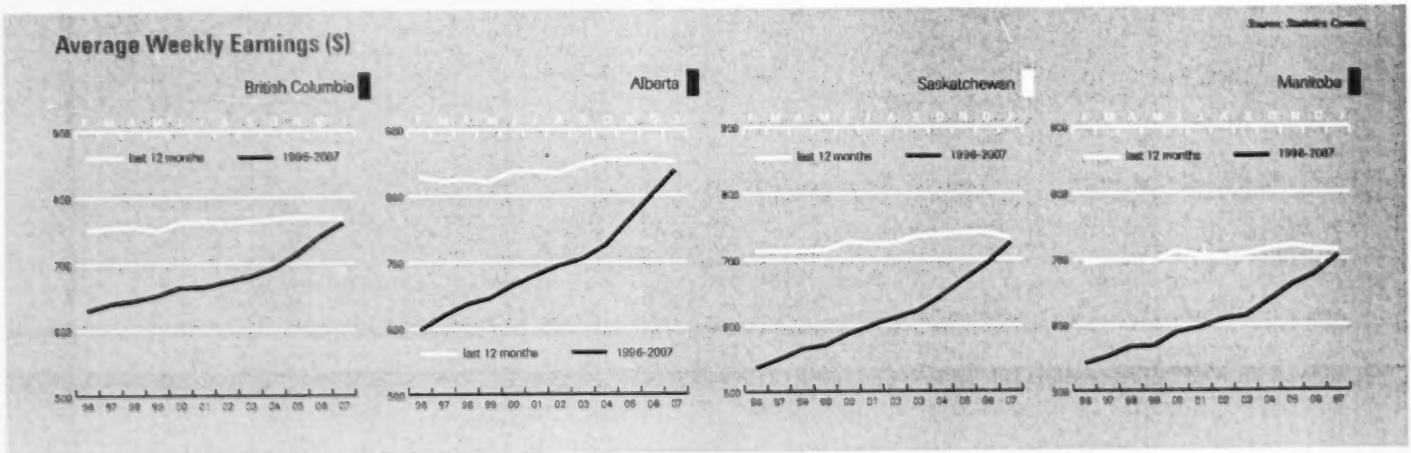
Although Saskatchewan leads the country in terms of the increase in the number of housing starts, the rate of expansion in Saskatchewan has slowed down from the frenetic level of activity that characterized most of 2007.

The rate of increase of consumer price inflation has slowed. Nationally, higher gasoline prices is the primary cause of rising consumer prices. The inflation rate in BC is the lowest in Canada while Alberta and Saskatchewan posted the highest rates.

Growth in manufacturing sales has picked up in Saskatchewan and slowed markedly in Manitoba. In BC, the value of manufacturing sales continues to contract. BC's beleaguered wood products industry is an important factor in this trend.

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Employment (SA, 000s)	2,317.9	2,004.5	508.2	602.7	17,116.8	March
% change, 3-month ma, yoy	2.4	3.3	0.9	1.7	2.0	
Unemployment rate (SA, %)	4.3	3.4	4.1	4.3	6.0	March
Participation rate (SA, %)	66.9	74.7	69.5	69.6	68.0	March
Average weekly earnings (SA, $)	767.80	851.20	731.72	713.88	785.14	January
% change, 3-month ma, yoy	2.8	4.0	5.9	4.2	3.2	
CPI inflation, annual (%)	1.1	3.5	3.4	1.6	1.8	February
Building permits: residential (SA, $ millions)	653.0	591.9	81.7	88.1	3,310.6	January
% change, 3-month ma, yoy	-8.0	-8.6	52.5	7.7	2.2	
Building permits: non-residential (SA, $ millions)	162.3	592.2	37.7	23.9	2,540.4	January
% change, 3-month ma, yoy	-22.5	-1.9	80.8	-46.3	-3.9	
Housing starts (SAAR, 000s)	54.1	38.7	5.7	5.2	256.9	February
% change, 3-month ma, yoy	16.2	18.4	17.8	6.0	1.3	
Retail trade (SA, $ millions)	4,811	5,180	1,166	1,268	35,752	January
% change, 3-month ma, yoy	7.4	6.6	16.1	11.4	6.5	
Wholesale trade (SA, $ millions)	4,319	5,571	1,473	1,150	44,080	January
% change, 3-month ma, yoy	3.0	4.4	9.9	7.1	2.8	
Manufacturing sales (SA, $ millions)	3,370	5,544	949	1,298	49,309	January
% change, 3-month ma, yoy	7.1	1.3	8.7	0.6	3.5	

Source: Statistics Canada. yoy=year-over-year; ma=moving average; SA=seasonally-adjusted; SAAR=seasonally-adjusted at annual rates



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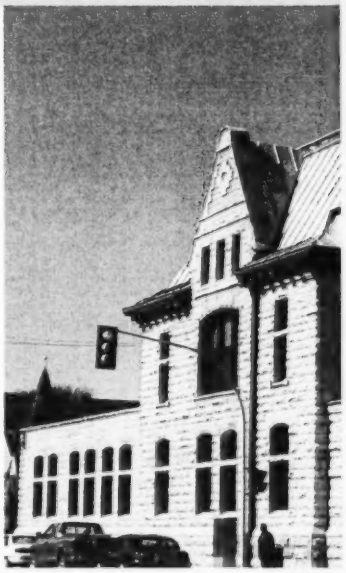
Did you know?

- Alberta and Saskatchewan have per capita greenhouse gas emissions that are more than three times the national average, and more than four times higher than Manitoba and British Columbia.
- Hydroelectric sources deliver 98% of power generation in Manitoba and 89% in British Columbia. In contrast, the majority of electricity in Alberta and Saskatchewan is generated by burning fossil fuels, 95% and 77% respectively.
- From 2002 to 2007, the unemployment rate for 15 to 24 year olds in British Columbia fell from 15.1% to 7.6%.
- The proportion of western Canada's population living on farms fell from 42.6% in 1931 to 4.7% in 2001.
- Western Canada is twice the size of France, Germany and Spain combined.

City in Profile: Portage la Prairie, MB



Manitoba's fourth largest city is Portage La Prairie, which is located between Winnipeg and Brandon on the Trans-Canada Highway. Its population at the time of the 2006 Census was 12,728, down marginally from the 2001 count.

Portage la Prairie has always been an important transportation centre, dating back to its days as a fur trading post. The city's name comes out of the area's history. Portage la Prairie derives its meaning from the "Prairie Portage" that the early explorers had to endure when transporting goods from the Red and Assiniboine Rivers across to Lake Manitoba.

Agriculture and related processing and services are major part of the economy. A substantial portion of agricultural land in the Portage la Prairie area is irrigated. As a result, farm operators produce a range of specialty crops such as carrots, onions, asparagus, beans, cauliflower, broccoli, peas, potatoes, and various grains and oil seeds. The diverse agricultural production of the Portage la Prairie area has attracted many food processing plants to the city. These include McCain Foods Ltd., Parrheim Foods, Can Oats Ltd., Best Cooking Pulses Ltd., and JR Simplot's newest Canadian potato processing plant.

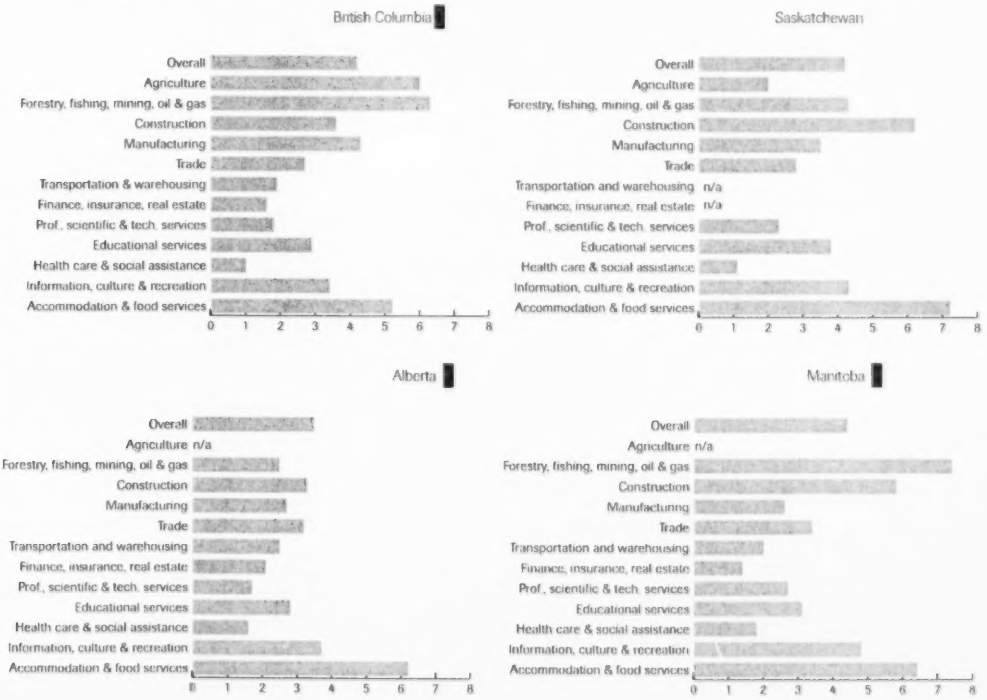
BEHIND THE NUMBERS

In 2007, the unemployment rate in western Canada was 4.0%, with provincial rates ranging from 3.5% in Alberta to 4.4% in Manitoba. Looking beneath the provincial figures, one can see that the rate of unemployment varies across industries. Region-wide, unemployment is lowest in finance, insurance, and real estate; and health care and social assistance.

The employment picture has changed significantly over time, with growth in total employment from 1990 to 2007 being driven by gains in the services producing sectors. In the West, 81% of job gains were in service industries. For the rest of Canada, all job gains were due to service industries--employment in goods producing sectors contracted between 1990 and 2007.

Unemployment by Industry, 2007 (%)

Source: Statistics Canada



City Hall in Portage la Prairie, Manitoba

BEYOND EXPECTATIONS: SASKATCHEWAN

Economic Profile and Forecast

Optimistic. Confident. For too long these adjectives were not used to describe Saskatchewan. Oh, how things have changed. With a thriving economy, people across the province are looking forward with optimism and confidence.

Current trends in population growth and interprovincial migration have been good news for the province, after a long and steady outflow of young people. From 1984 to 2006, Saskatchewan lost over 160,000 people to interprovincial migration, the equivalent of 16% of its current population. However, Saskatchewan gained more than 10,000 people from interprovincial migration in 2007.

Over the past 30 years, Saskatchewan's unemployment rate has been lower than the national rate by 2.5 percentage points on average. Although unemployment in Saskatchewan has been relatively low, employment growth has lagged well behind other provinces. The loss of working age people to other provinces contributed to Saskatchewan's low rate of unemployment. In the past couple of years, however, employment picked up steam. Saskatchewan's employment growth in 2007 was 2.1%. A significant amount—nearly 75%—of this growth was in Saskatoon, where employment grew by 5.9% in 2007.

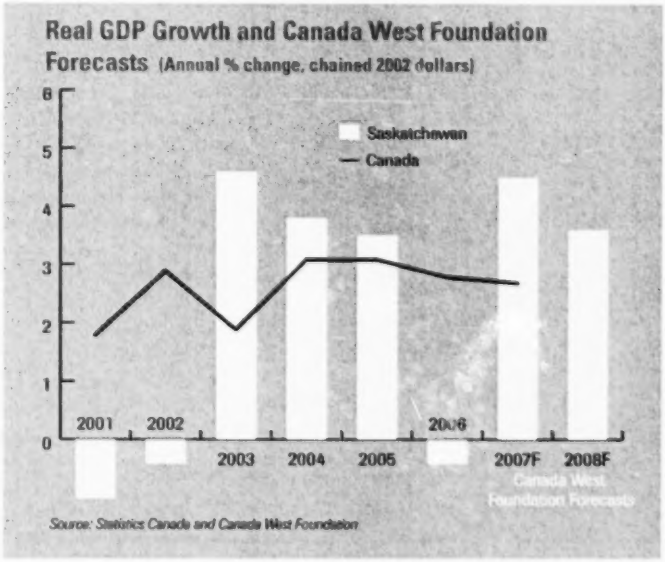
Solid worldwide demand for commodities such as potash, uranium and oil is the primary reason for the turnaround in the Saskatchewan economy. Expenditures on mineral exploration have exploded, growing by a factor of nine in only four years. After 25 years of little in the way of potash exploration, there was a flurry of activity in 2007 due to high prices and growing demand. Market conditions have spurred the province's potash producers to bring idle mine capacity back online, and upgrade and expand their operations.

Saskatchewan is responsible for almost one-third of Canada's total oil production, making it the country's second largest producer. Oil well drilling activity in Saskatchewan is expected to be up in 2008. Alberta, on the other hand, is experiencing a significant decline in oil and gas drilling. Last year was a record year for sales of Crown petroleum and natural gas rights, with sales in excess of $250 million, an increase of 41.8% over 2006. If the first sale of 2008 was any indication, another new record will be set this year. Sales of Crown petroleum and natural gas rights reached $197 million already this year, after the single largest sale in the province's history.

Things look good for crop producers as well. Although Saskatchewan has gradually moved past an economy based heavily on agriculture, the sector still plays an important role in the economy, especially in rural areas. In 2007, total farm cash receipts in Saskatchewan were up considerably due to higher prices for grains and oilseeds. Agriculture and Agri-Food Canada has forecasted that crop receipts in Saskatchewan will increase further in 2008. On a per farm basis, net farm income in the province is expected to increase 18% in 2008 and farm receipts are expected to exceed non-farm income for the first time in years.

The primary downside risk from outside the province is the US economy, which has all but gone off the rails. Within the province, labour shortages will intensify as the economy steams ahead, providing the only major foreseeable constraint to growth. Another major challenge for the province is engaging the fast-growing Aboriginal population in the workforce. Much more work is required in training young Aboriginal people and meaningfully engaging them in the work force.

All things considered, the outlook for the Saskatchewan economy is excellent. The Canada West Foundation is forecasting real GDP growth of 3.6% for 2008, placing the province at the front of the pack in Canada.



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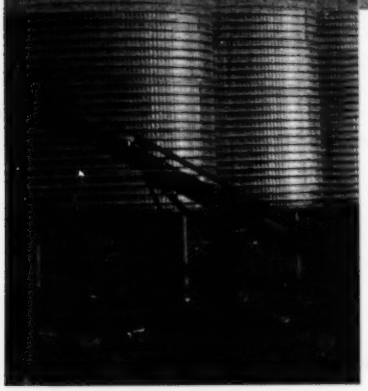

Saskatchewan's growth will come with challenges

by Brett Gartner, Senior Economist

From coffee row to corporate boardrooms, people across Saskatchewan are genuinely optimistic about what the future holds. Strong global demand for Saskatchewan's rich endowment of natural resources has laid the foundation for the province's economic resurgence. Businesses and investors have also responded positively to recent changes in the tax environment and proposed changes to provincial labour legislation. The population has grown as more and more people have moved to Saskatchewan from other provinces. In many cases, people who left have moved back. It's a good time for the province.

The optimism in Saskatchewan stands in stark contrast to the dark backdrop of grim economic and financial news emanating from south of the border. There are serious warning signs in Canada as well. Consumer confidence is down, although Canadian consumers remain quite a bit more optimistic than Americans. Canada's exports weakened further in the fourth quarter of last year, reflecting conditions in the US and the impact of the high Canadian dollar. Nationally, economic growth slowed to 0.8% in the fourth quarter, down from 3% the previous quarter. This was the weakest growth since the second quarter of 2003.

However, more than any other province in Canada, Saskatchewan is well positioned to ride out the storm.

Last year, the province led the country on housing starts, building permits, and retail sales, which were up 61.7%, 46.6% and 12.7% respectively. Saskatchewan's unemployment rate is among the lowest in Canada and, if it is not there already, the province is as close to full employment as it has ever been.

The outlook for the Saskatchewan economy is bright for virtually every sector. Mining, construction, oil exploration and production, and retail will all do well in 2008. While there are no certainties in agriculture, the outlook for crop producers is also quite good. The robust economy will encourage more people to move to Saskatchewan and the population will continue to expand.

There will, of course, be bumps in the road. Labour shortages will continue to be a thorn in the side of the employers across Saskatchewan. Along with labour shortages, rising costs will have an impact on private sector investment plans. The issues of housing affordability and availability have reared their ugly head, with skyrocketing housing prices and rents as well as low rental vacancy rates. Addressing these issues in an environment of rapid growth is not an easy task. Just ask the provincial government.

The provincial government will undoubtedly run up against the challenges of cost over-runs and construction delays as it moves forward on the ambitious infrastructure expansion program it laid out in the March 19 budget. Public infrastructure projects will have to compete with large private sector projects–and a growing economy in general–for a limited number of skilled workers and other inputs. Preparing for growth is a fine idea, but the province must brace itself for the inevitability that it will pay more than originally planned for each infrastructure project.

Speaking of rising costs, the recent provincial budget included a 10% increase in operating spending for 2008-09, with extra money for most areas, including the big-ticket items of health and education. In its election platform, the Saskatchewan Party said that operating spending would increase by about 1.8% per year until 2011-12. Operating spending is budgeted to hit $8.6 billion in 2008-09, $200 million more than the Saskatchewan Party election platform said the government would spend three years from now. Keeping government spending in check when the economy is running hot is not going to be easy.

Saskatchewan's expanding economy and growing population are, without a doubt, good news. While a growing economy and strong commodity prices will help keep provincial government revenues strong, a growing population will increase the demand for public services. If the new government's first budget is any indication, one would be ill advised to wager that the rate of growth in provincial operating spending will be as low as 1.8% per annum over the next few years.

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